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**MINUTES
MEETING OF THE AUDIT AND COMPLIANCE COMMITTEE
OF THE BOARD OF DIRECTORS
ENRON CORP.
FEBRUARY 12, 2001**

Minutes of a meeting of the Audit and Compliance Committee ("Committee") of the Board of Directors of Enron Corp. ("Company"), noticed to begin at 1:30 p.m., C.S.T., but actually begun at 1:40 p.m., C.S.T., on February 12, 2001 at the Enron Building, Houston, Texas.

All of the Committee members were present as follows:

Dr. Robert K. Jaedicke, Chairman
Mr. Ronnie C. Chan
Dr. Wendy L. Gramm
Dr. John Mendelsohn
Mr. Paulo V. Ferraz Pereira
Lord John Wakeham

Directors Kenneth L. Lay and Jeffrey K. Skilling, Messrs. Robert H. Butts, Richard B. Buy, Richard A. Causey, James V. Derrick, Jr., Shawn Kilchrist, Mark E. Koenig, Tod A. Lindholm, and Jordan H. Mintz and Ms. Rebecca C. Carter, all of the Company or affiliates thereof, Messrs. Thomas H. Bauer and David B. Duncan, of Arthur Andersen LLP ("AA"), and Mr. Richard N. Foster of McKinsey & Company, Inc. also attended the meeting.

The Chairman, Dr. Jaedicke, presided at the meeting, and the Secretary, Ms. Carter, recorded the proceedings.

Dr. Jaedicke called the meeting to order, noted that a draft of the minutes of the meeting of the Committee held on December 11, 2000 had been distributed to members of the Committee, and called for comments, additions, or corrections. There being none, upon motion duly made by Lord Wakeham, seconded by Dr. Mendelsohn, and carried, the minutes of the meeting of the Committee held on December 11, 2000 were approved as distributed.

Dr. Jaedicke called upon Mr. Duncan to begin AA's presentation, a copy of which is filed with the records of the meeting. Mr. Duncan began by providing an update of the status of AA's audit and the communications required by AA under the Statement on Auditing Standards 61, "Communication with Audit Committees". He noted that AA's financial statement opinion was expected to be

unqualified and that there were no significant audit adjustments, new accounting policies, changes not previously communicated to the Committee, modifications to interim financial information, disagreements with management, significant difficulties encountered during the audit, major issues discussed with management affecting retention, or consultation with other accountants on the application of Generally Accepted Accounting Principles ("GAAP").

Mr. Duncan then discussed AA's opinion on the Company's internal controls and stated that the opinion would be unqualified, the audit was complete, and no material weaknesses had been identified. He stated that Mr. Kilchrist would discuss certain areas where improvement opportunities had been identified. He noted that AA had made its annual determination that, in its professional judgement, it remained independent. He then discussed the status of any adjustments proposed by AA that were not made and noted that management had determined that the items were not material to the Company's financial statements taken as a whole and that AA had concurred.

Mr. Duncan then provided selected observations regarding the Company's accounting procedures and financial reporting. He stated that the Company continued to utilize highly structured transactions, such as securitizations and syndications, in which there was significant judgement required in the application of GAAP. He commented on the use of mark-to-market and fair value model accounting in the areas of trading and derivative contracts and stated that these also required significant judgement regarding the applicability of certain models to specific products or transactions. He then reviewed related party transactions, classification issues that had arisen during the year, and certain other areas requiring material judgments to be made.

Dr. Jaedicke then called upon Mr. Causey to review the significant reserves included in Enron's 2000 financial statements. Mr. Causey distributed a handout, a copy of which is filed with the records of the meeting, listing the reserves in the 1998, 1999, and 2000 financial statements. He commented on reserves relating to Portland General Electric's Trojan facility and Sullivan plant. He then discussed an Enron North America reserve relating to a potential contract settlement, prudence and credit reserves, and certain tax reserves related to years under audit.

Mr. Causey then began a discussion of transactions with LJM during 2000. He stated that the Company had established internal policies and procedures to deal with related party transactions such as LJM. He reviewed the Board established guidelines for transacting with LJM and then began a discussion of the Company's compliance with the guidelines. He stated that, in response to the Board's direction, the Company had adopted the following procedures and

controls: 1) an LJM Deal Approval Sheet ("DASH") was prepared for every transaction between the Company and LJM with approval required by a variety of senior-level Company professionals in the commercial, technical, and commercial support areas and 2) the DASH was supplemented by an LJM Approval Process Checklist that tested for compliance with the Board's directive for transacting with LJM. He then stated that the Company had implemented supplemental efforts regarding transactions with LJM including the following: 1) LJM senior professionals do not ever negotiate on behalf of the Company, 2) Company professionals negotiating with LJM report to senior Company professionals separate from Mr. Andrew S. Fastow, 3) numerous groups monitor compliance with procedures and controls and regularly update him and Mr. Buy, and 4) the Company regularly consults with internal and outside counsel regarding disclosure obligations. He then presented all of the transactions between the Company and LJM during 2000, gave a brief description of each transaction, and noted the notional amount. He noted that the majority of the transactions were non-earnings related and were primarily related to deconsolidations, securitizations, or monetizations.

Dr. Jaedicke then called upon Mr. Derrick to begin the report of legal matters disclosed in Enron's financial statements. Mr. Derrick reviewed the footnote in the Company's financial statements regarding litigation and other contingencies and answered questions from the Committee relating to the disclosure items.

Dr. Jaedicke called upon Mr. Causey to discuss the Company's 2000 financial statements. Mr. Causey stated that the 2000 financial statements would include a new segment, Broadband Services, reflecting the Company's increased activities in this area. He then reviewed certain areas of disclosure relating to the Wholesale Services business segment and discussed the segment's dependence on the origination and completion of transactions, some of which are individually significant and impacted by market conditions, the regulatory environment, and customer relationships. He then distributed updated pages to the financial statements on credit risk and recently issued accounting pronouncements, copies of which are filed with the records of the meeting, and commented on changes in the Company's credit risk from the prior year. He then reviewed the disclosure regarding the impact of changes in accounting principles. Following a discussion, upon motion duly made by Dr. Gramm, seconded by Mr. Chan, and carried, the Committee approved for recommendation to the Board the proposed 2000 financial statements to be included in Enron's annual report and Form 10-K.

Dr. Jaedicke called upon Mr. Causey to discuss the Audit and Compliance Committee Report. Mr. Causey stated that the Securities and Exchange

Commission ("SEC") was now requiring a report from the Committee to be included in the Company's proxy statement. He reviewed the report and, following a discussion, upon motion duly made by Mr. Ferraz Pereira, seconded by Dr. Mendelsohn, and carried, the proposed Audit and Compliance Committee Report was approved

Dr. Jaedicke then called upon Mr. Causey to discuss the revised Audit and Compliance Committee Charter ("Charter"). Mr. Causey stated that the Charter was required to be put in the proxy every three years. He stated that the only change to the Charter related to the area concerning the Committee's review of the Company's financial statements and included the addition of the following responsibility: "review with management the Company's policies and practices for communications with analysts". Following a discussion, upon motion duly made by Mr. Ferraz Pereira, seconded by Dr. Gramm, and carried, the proposed Charter was approved for recommendation to the Board.

Dr. Jaedicke called upon Mr. Causey to begin the annual report on executive and director use of corporate aircraft. Mr. Causey reviewed the taxable value, flight hours, and direct cost for each officer who had utilized the Company's aircraft during the year.

Dr. Jaedicke then called upon Mr. Causey to discuss the 2001 Internal Control Audit Plan. Mr. Causey began with a review of the key business trends impacting the Company, including the significant growth in volumes and transactions, a rapid extension of the network model to new markets and locations, an aggressive movement to e-commerce platforms, a growth in Enron Energy Services and Enron Broadband Services, increasing investment in information systems development, the continued use of sophisticated portfolio and capital management practices, and the planned divestiture of various capital intensive assets. He then presented an overview of the Company's business risk assessment and commented that there were no significant changes from the prior year. He displayed a chart of the key business risks, which included the major target activities, and noted that the Company and AA continued to expand their activities into the growth areas at the Company. He commented on the key changes from the prior year in all of the key business risk areas.

He then reviewed the planned control work effort by business area and business unit for the year 2001, compared them to the years 1998 through 2000, and stated that the current year's plan was fairly consistent with that of 2000. He then called upon Mr. Kilchrist to discuss certain areas that would be emphasized in 2001. Mr. Kilchrist stated that one of the primary areas of emphasis in 2001 would be the Company's systems. He noted that the core gas and power trading systems

were being redesigned and there were new or expanded systems being developed for some of the Company's newer businesses. He then commented on other basic controls that would be emphasized during 2001 and began a discussion of the shared assurance services. He noted that the Company would be working with AA on shared assurance services, stated that his group would be overseeing the internal audit process, and outlined the work that would be performed by AA and the Company. He noted that the Company had formed internal control committees in each of the business units to assist in the implementation of control and process assessment and improvement.

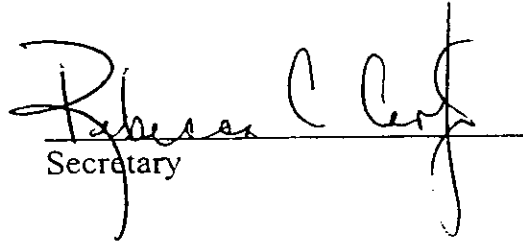
Dr. Jaedicke then called upon Mr. Koenig to review the Company's policies and practices for management's communications with analysts. Mr. Koenig distributed a handout, a copy of which is filed with the records of the meeting, and began with a discussion of the Company's Investor Relations group ("IR group"). He stated that the IR group had a high level of interaction and coordination with the Company's business units, corporate accounting, public relations, finance, and legal to ensure that a consistent message was being delivered. He then reviewed the Company's primary means of communicating with investors and stated that the SEC had recently implemented Regulation FD, which dealt with fair disclosure issues. He noted that this was the first attempt by the SEC to directly regulate communications between public companies and investors and that the regulation required that material developments or expectations must be communicated to all investors simultaneously and transparently. He stated that the SEC's single biggest area of concern regarded selective earnings guidance, and he reviewed the individuals that were and were not subject to Regulation FD. He noted that Regulation FD does not define materiality in regards to what is non-public material information, and he stated that common guidelines under case law precedents would likely apply. He then discussed items that would likely be considered material information, such as events including earnings information, merger and acquisition activity, new products or discoveries, changes in management, and changes in financial condition. He stated that there were no specific Regulation FD mandates but that the Regulation would be satisfied if "the method of public disclosure is reasonably designed to provide broad non-exclusionary distribution of the information to the public". He then reviewed the potential impact of the Regulation on the IR group and their meetings and discussions with analysts and investors.

Dr. Jaedicke then stated that the Credit and Market Risk Update, included on the agenda, would be discussed in the Finance Committee meeting.

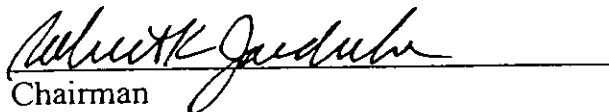
Dr. Jaedicke recessed the meeting at 3:15 p.m., C.S.T., on February 12, 2001 and reconvened the meeting, in executive session, at 7:50 a.m., C.S.T., February 13, 2001 at the Enron Building in Houston, Texas.

During the executive session the Committee unanimously approved recommending to the Board that AA be appointed the Company's independent public accountants for 2001.

There being no further business to come before the Committee, the meeting was adjourned at 8:00 a.m., C.S.T.


Secretary

APPROVED:


Chairman

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